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RR RUEHHM RUEHJO RUEHPOD
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FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 0021
INFO RUEHGZ/CHINA POSTS COLLECTIVE 0008
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RUCPDO/DEPT OF COMMERCE WASHINGTON DC 0006
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEAIIA/CIA WASHDC 0008
RUEKJCS/DIA WASHDC 0008
RHEHAAA/NSC WASHDC

UNCLAS SECTION 01 OF 02 GUANGZHOU 000692

SENSITIVE
SIPDIS

STATE FOR EAP/CM, DRL, INR/EAP

E.O. 12958: DECL: N/A

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SUBJECT: China Labor Experts Fear Downturn could Delay
Labor Enforcement

¶1. (SBU) SUMMARY: Doubts about the government's willingness to enforce labor regulations and mixed messages from senior Party leaders on assistance to failing business have left many enterprises in the Pearl River Delta reluctant to conform to the Labor Contract Law and related regulations. Years of complacency and a dearth of investment in research and development have limited the ability of many small and medium enterprises to adapt to current economic conditions. Unable to issue municipal bonds, cities like Dongguan have few options to raise capital to help businesses and shore up the local economy. END SUMMARY.

Betting on Lax Enforcement

¶2. (SBU) Doubts about the government's willingness to enforce regulations potentially detrimental to business have emboldened some enterprises to refuse to purchase social security insurance for workers, according to Sun Yat-Sen University Department of Public Finance and Taxation Dean Lin Jiang. Lin, who is also an advisor to the Dongguan municipal government, said that the postponement of new minimum wage legislation has led some enterprises to conclude that enforcement of worker rights, too, could be postponed in an effort to aid vulnerable SMEs in the export sector. East China University of Political Science and Law Professor Dong Baohua, who serves as vice chairman of the China Labor Law Research Association and who helped pen China's Labor Contract Law (LCL), claimed that any decision to postpone implementation of the LCL would come from "senior-level leaders" in Beijing, causing provincial and municipal leaders to watch the capital closely.

Lack of Consensus at the Top

¶3. (SBU) Lin said that mixed signals from senior Party leadership highlight a lack of consensus on how to deal with current conditions. He juxtaposed statements by Guangdong Party Secretary Wang Yang that the PRD enterprises that have closed down are mostly SMEs representing "backward productivity" -- whose closure is a good thing for the economy -- with Premier Wen Jiabao's comments that government should lend a helping hand to SMEs in order to maintain social stability. Dong characterized the choice for leaders as either "disrupting the economic order" by continuing to enforce labor standards or "disrupting the social order" by ignoring or permitting violations of the law. Lin disagreed that the LCL itself was a major contributing factor to the current economic

situation, speculating instead that enterprises see an opportunity to use the fear of a worsening economy to force the law's repeal or postponement.

Complacency, and Missed Opportunities

¶4. (SBU) Municipal authorities in Dongguan and other manufacturing bases in the PRD are concerned about their ability to remunerate workers subject to surprise layoffs or firm bankruptcies, according to Lin, who said that in practice such funds might not be made available to "all firms," especially in the case of poorer cities likely to run out of money. Due to an inability to issue bonds, Lin said that cities like Dongguan have only limited options to raise capital for a financial rescue operation.

¶5. (SBU) Shortsightedness on the part of businesses, too, will continue to be costly. Lin accused many of Dongguan's enterprises of complacency, saying that a history of comfortable profits supplied little incentive to invest in research and development. Now, the opportunity to do so was past. Lin said that "not all" of Dongguan's townships were "interested" in examining their existing policies toward business, implying that such areas could be hit especially hard by the new economic reality.

¶6. (SBU) Dongguan's entire infrastructure development -- especially its road network and its ports -- are export oriented, thus magnifying the current economic difficulties, said Lin. The Yangze River Delta is better

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positioned than the Pearl River Delta to serve the domestic market, according Lin, who added that a number of PRD-based companies had already relocated to the YRD, with others likely to follow suit.

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